

Executive Summary

Utah's economy improved only slightly in 2003 due to the lingering effects of the national slowdown, the bursting of the dot-com bubble, and the completion of the 2002 Olympic Winter Games. Utah's 2003 personal income growth of 2.0% was the weakest since 1954, and the recent two years of consecutive job losses were the worst in 57 years.

Not since the end of World War II has Utah experienced back-to-back years of employment contraction. Without the national technology collapse, Utah would not have been hit as hard as it has. Mirroring national conditions, between January 2001 and June 2003, Utah's high technology sector lost almost 10,000 jobs. This represents a drop of 15.0% from 66,400 high technology jobs to 56,400. The majority of employment contraction that has occurred in Utah is accounted for by the technology sector.

Still, record high defense spending and near record new housing starts helped steady the Utah economy during 2003. In terms of value, Utah experienced its best year ever in 2003 due to the lowest mortgage rates in 50 years. This occurred despite poor job growth and modest net in-migration. And, according to the latest Bureau of Labor Statistics data, Utah's economy continued to outperform the nation and registered positive year-over job growth as recently as October and November of 2003.

Outlook. The outlook calls for a return to moderate growth during 2004. Service industries will remain the largest source of new jobs in the state during 2004. Manufacturing and other goods producing

industries will show weak growth. Over the long run, Utah usually performs better than the nation due to strong internal population growth, a young, well-educated workforce, low business costs, and a strong work ethic. Overall, employment should grow 1.4%. With record high

births and some in-migration, population growth should match the 2003 rate of 2.0% during 2004, about twice the national rate.

International, National, and Regional Context

Global Growth. With the U.S. leading the way by importing products from around the world at a record pace, global economic prospects improved during 2003 and the outlook is good for 2004. As Operations Enduring and Iraqi Freedom progress, and the geopolitical situation stabilizes, trade and growth will strengthen economies throughout the world.

National Recovery.

Economic conditions in the U.S. are improving as both demand and production rise. Through tax cuts and low interest rates, fiscal and monetary policy have

supported consumer spending and, to a lesser extent, business investment. Consumer spending and new home construction have been driving the recovery. With employment growing 1.1% during 2004, consumer spending will continue to grow. Business investment in plant and equipment has been weak since the recession began in 2001, but

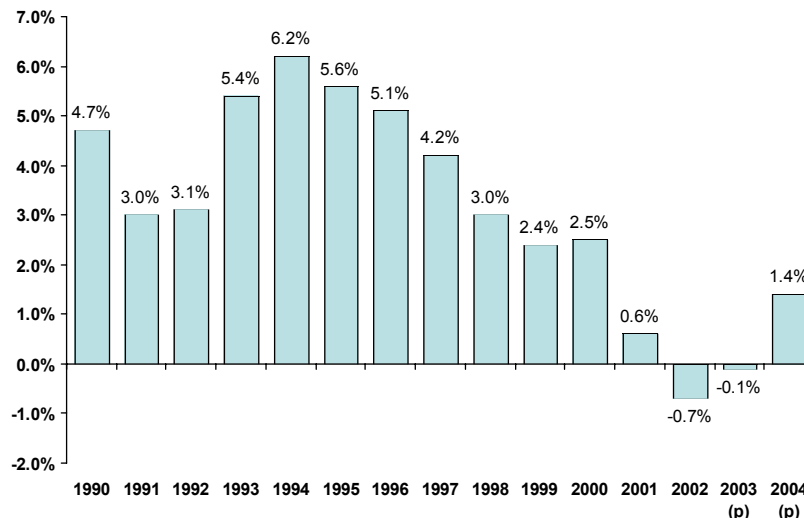
with job growth and reduced geopolitical concerns, investment should pick up during 2004. Overall, inflation-adjusted GDP is expected to grow 4.3% during 2004, real consumption is expected to grow 3.7%, and inflation-adjusted investment is expected to grow 6.1%.

End of Struggle in the Mountain States.

Utah and the mountain region continued to struggle in 2003. The jobless recovery hampered the region as whole, while the post-Olympic period presented special

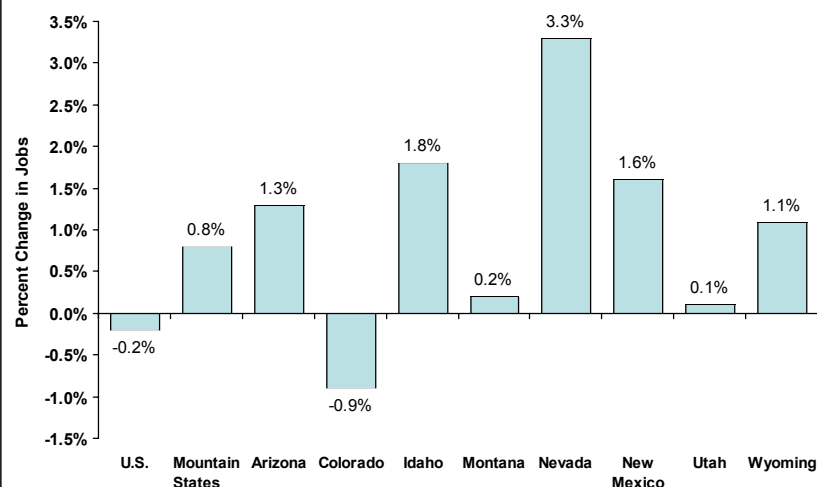
challenges in Utah. Wages and income suffered. Areas in the western United States have shown strikingly different trends during the last five years, with Nevada as the leader in growth. Wyoming has also shown resilience, in part due to the oil and natural gas industries that dominate

Figure A. Utah Resumes Job Growth After Two Years of Contraction



Sources: Utah Department of Workforce Services and the Council of Economic Advisors Revenue Assumptions Committee

Figure B. Mountain States Job Growth: October 2003 over October 2002



Source: U.S. Bureau of Labor Statistics

Note: October 2002 and October 2003(p) BLS data differs from Utah Department of Workforce Services data.

the state's economy. Population growth has exceeded the national average for almost all western states, including Utah, but seems to be slowing in the mountain states, excluding Arizona and Nevada. As the recovery strengthens across the nation during 2004, the struggle in the mountain states should end.

Population

Utah's population grew 2.0% during 2003, about twice the national rate. Despite a flat economy, net migration was almost 10,000. Population growth appears to have entered a slower period that may extend for several years, in contrast to the 1990s, where growth exceeded 2.5% in most years, topping 3.0% in 1991, 1992, and 1994. While the current slower growth period reflects less economic opportunity, it also presents less challenge in terms of transportation infrastructure, housing, and critical lands preservation.

Jobs and Wages

As 2003 closed, Utah's economy began to recover from its worst slump since 1954. After falling by almost 8,000 in 2002, nonfarm employment fell by another 1,000 during 2003. The recession that began in 2001 is Utah's only post war recession in which average annual employment fell two years in a row. On a bright note, although jobs for the year during 2003 are down, on a monthly basis, employment began to grow during the last half of 2003. With the positive turn at the end of 2003, employment is expected to grow a modest 1.4% during 2004. With employment growing, the unemployment rate is expected to fall from 5.8% in 2003 to 5.4% in 2004.

The 2003 rate of job change in Utah's major sectors ranged from -4.1% in mining to 2.2% in education and health. Information fell -1.9%, manufacturing fell -1.6%, construction fell -1.1%, and trade, transportation and utilities fell -0.5%. Government grew 0.8%, finance grew 0.7%, and professional and business services grew 0.4%. In 2004,

construction will continue to fall, but most industries should see improvement.

Utah's average annual nonagricultural pay was \$30,500 during 2003, up 1.4% from 2002. After seven years in row of solid gains in which wages

grew faster than inflation, wages matched inflation during 2002, but wages grew less than inflation during 2003. With the economy growing again, wages should outpace inflation during 2004 and the standard of living in Utah should resume the upward trend of the 1990s.

Economic

Performance by Sector

Economic performance varied across sectors during 2003. Given the ongoing geopolitical situation, it is not surprising that defense

was up. Minerals were up as well, with global economic growth resuming. Other sectors range from mixed to down.

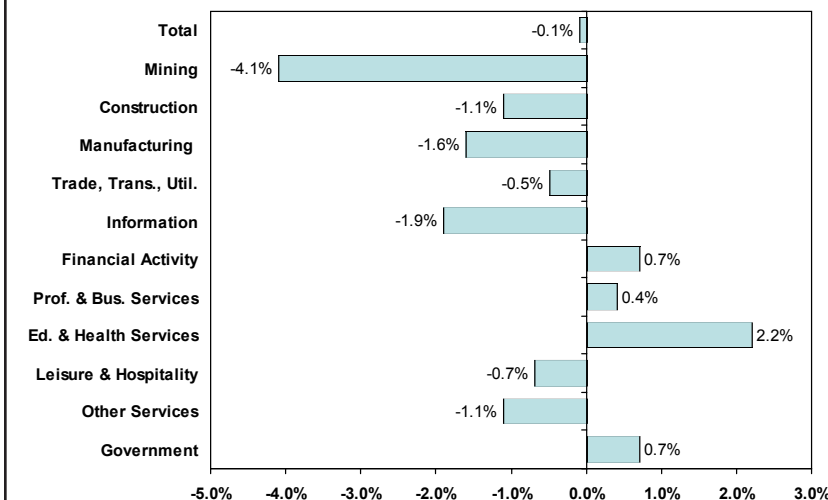
Defense and Minerals Up

Defense. Utah's defense industry continued with solid growth during 2003, as Northrup Grumman expanded at Hill Air Force Base, and as Operations Enduring and Iraqi Freedom proceeded. At this point, U.S. defense spending appears to be on an upward track at least through 2010, which will keep Utah's defense sector growing. Defense spending in Utah during 2002 totaled \$2.47 billion, up 5.0% from 2001.

Minerals. At \$1.9 billion during 2003, the value of mineral production in Utah was increased over \$60 million, or almost 3% from 2002. Improving metal prices, increasing production and the

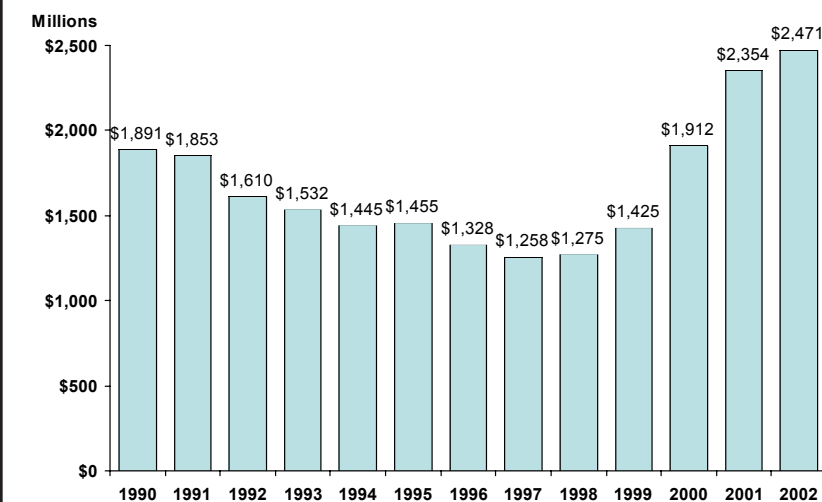
improving global economy drove the increase during 2003. Contributions from the major industry segments were: base metals (\$715 million), industrial minerals (\$586 million), coal (\$445 million), and precious metals (\$133 million). The Utah Geological Survey estimates that 82 Large Mines (including coal) and 113 Small Mines will report

Figure C. Service Industries Showed Growth



Source: Utah Department of Workforce Services

Figure D. Defense Spending in Utah at a Record High



Sources: U.S. Department of Commerce, Bureau of the Census; Department of Defense

production in 2003, compared to 81 Large Mines and 94 Small Mines in 2002. Utah contributed about 3% of the U.S. total value of non-fuel minerals production in 2002. Excluding copper, metals production and prices should be up in 2004.

Construction, Energy, and Tourism Mixed

Construction. The lowest interest rates in a half century powered construction to a record high of \$4.5 billion permitted value. Most of this relatively strong performance is due to the residential sector (new homes and apartments). New home construction in 2003 totaled 16,500 units, ranking second to the all-time high of 17,400 new homes in 1977. Reinforcing the residential sector, non-residential permit values increased over 10% in 2003 to \$1.0 billion. While the value of construction is holding up well, employment is not. Since peaking at 72,800 in 1999, construction employment declined for the fourth year in a row to 67,100 during 2003, down almost 10% from the 1999 high.

Energy. Utah's 2003 crude oil production of almost 13 million barrels was about one-third of the 1985 peak, when 41 million barrels were

produced. This decline can only be offset with new well drilling. Given the trend in drilling, Utah's consumers will increasingly have to look elsewhere for both crude oil and other petroleum products. On the other hand, Utah's natural gas capacity has risen steadily over the years, primarily due to an increase in its coal bed methane fields. Actual sales of natural gas from Utah fields during 2003, 245 billion cubic feet, were near the 2002 record of 247 billion cubic feet. Economic recession, combined with mild winter weather, and increasing prices slowed the rise in Utah's demand for energy during 2003.

Tourism. The lingering effects of 9/11, Operation Iraqi Freedom, SARS, and difficult economic conditions presented a challenging set of circumstances for Utah's tourism sector in 2003. Overall, visitation was down just slightly from 2002, which, considering the boost to visitation from the 2002 Olympic Winter Games, means 2003 was a solid year for tourism. An increase in destination skiers and gains in the restaurant sector helped the amount of spending and employment related to travel and tourism to improve slightly. A successful 2002 Olympic Winter Games played a significant roll in attracting more destination skiers to the state in 2003. As the economy improves, the amount of tourism, travel, and recreation in Utah should increase.

Agriculture, High-Tech, and Exports Down

Agriculture. A drought not seen since the dust-bowl of the 1930s continued to hamper farming during 2003. Farm sales declined \$60 million from \$1.12 billion in 2001 to \$1.06 billion in 2002, with this down

trend continuing into 2003. The lack of moisture limited production of crops and forage in most areas of the state in 2003. For example, barley production in Utah was projected to decline by 28% from 2002 to 2003. Some dry farmers have found it unprofitable to either plant or harvest wheat. Ranchers have also been forced to sell cows as a result of reductions in the amount of forage that grazing lands have produced. The low levels of production resulted in significant disaster payments to farmers. USDA's Farm Service Agency reported that more than \$9 million had been paid to Utah producers as of October 2, 2003 for crop losses that occurred in 2001 or 2002. Production declines, however, were partially offset by higher prices for some commodities. Many livestock producers, for example, were able to sell calves at all time high prices during the fall of 2003. Grain prices have also strengthened. In contrast to rising prices for livestock and grains, hay prices declined from record levels during 2003.

High Technology. During 2003, Utah's high technology sector continued a decline that began in 2001. From January 2001 through June 2003, Utah's high-tech sector lost 9,929 jobs, a drop of about 15%.

Companies that engage in computer system design and computer and peripheral equipment manufacturers have been hardest hit, posting job losses totaling 5,500. However, the rate at which high technology jobs are declining appears to be slowing. Average employment in the high-tech sector for the first six months of 2003 is just 3.3% lower than average employment during the same period last year. While high technology will rebound as the overall economy

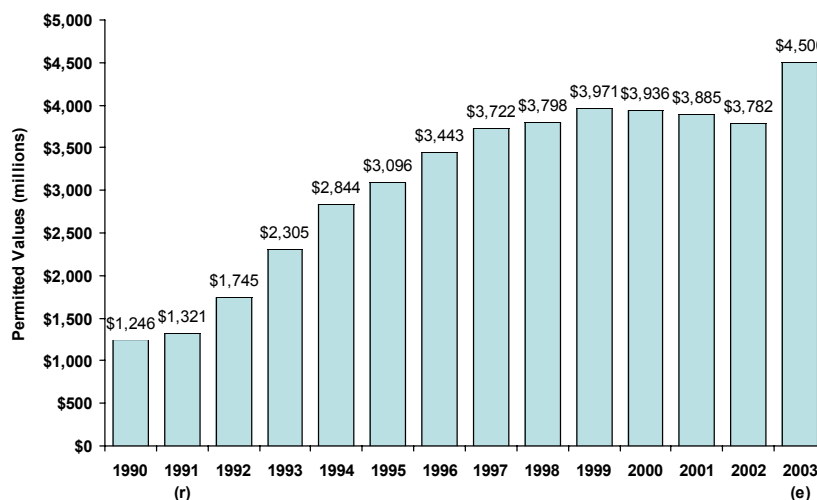
improves, it may take several years before employment returns to the peak of 2000.

Exports. Utah's exports fell 8.8% during 2003, from \$4.5 billion to \$4.1 billion. Utah's merchandise exports have been at or above \$3.0 billion since 1997 and above \$4.0 billion since 2002. Air shipments of gold to Switzerland and the United Kingdom accounted for almost 40% of the total during 2003. Signaling the beginning of a new trend in the global economy, Utah's exports to China exceeded \$100 million for the first time ever, ranking China the sixth-largest market for Utah exports. As the world economic recovery strengthens during 2004, Utah's exports should begin to grow.

Significant Issues: International Immigration, Long Run Growth, and the REMI Projections Tool

The Foreign Born Population. Immigration to the U.S. has been at historic levels for the past 30 years in what has been called the Second Great Migration Wave. In contrast to the vast immigration from 1880 through 1920, the majority of these recent migrants have come from

Figure E. Construction Value Powered to Record High by Low Interest Rates



Source: University of Utah, Bureau of Economic and Business Research, November 2003.

Latin America and Asia rather than Europe. This immigration has significantly impacted Utah as its foreign-born population increased from 58,600 in 1990 to 158,664 in 2000, accounting for at least 20% of the population growth of the state in the 1990s. About three-quarters (74,058) of this increase originated in Latin America. Because of the magnitude and regional sources of these flows, this most recent wave of immigration has dramatically increased the racial and ethnic diversity of the nation and Utah. If recent trends continue, diversity will become a central feature of Utah's long run growth.

Long Run Growth. For almost a decade, the Quality Growth Efficiency Tools (QGET) Work Group has been analyzing growth issues in The Greater Wasatch Area, a 10-county region along the front and back of the Wasatch Mountain Range. The 2003 Baseline Growth Scenario continues a series of studies on the demographic, economic, air quality, water, transportation, and land use future for the Greater Wasatch. The steady and rapid population growth within the region places increasing demands on public services. The growth also places a strain on the environment because of the unique geographical layout of the area, which is bounded by mountain ranges and water bodies and includes land that is essentially arid. The 2003 Baseline suggests that growth to 2030 can be accommodated while the quality of life improves, but not without good planning.

Regional Economic Models Incorporated (REMI) Projections Tool.

The primary input to QGET style growth analysis is economic and demographic projections. For three decades the Utah Process Economic Demographic (UPED) model was the tool used by analysts to develop projections at the state, region, and county level. Because of ongoing maintenance concerns, in 2001 the UPED Steering Committee was created to review the status of UPED and to consider alternatives. After the effort and cost of continuing UPED became clear, the Steering Committee concluded the State of Utah should switch to REMI. What is now known as the REMI model was originally developed by researchers at the University of Massachusetts, with a version of the model system adapted for the National Academy of Sciences. In 1980, REMI was founded as a company to maintain and market a model originally conceived as a tool to analyze regional growth within the United States, but is now being applied around the world. The State of Utah has a long history of producing detailed and accurate long-term projections. REMI will ensure that Utah's official long-term projections maintain their high standards of quality and accuracy for many years to come.

Looking Ahead

As the recovery strengthens, Utah's economy should resume moderate growth during 2004. After two consecutive years of job losses, employment should grow 1.4% during 2004. The unemployment rate is expected to fall from the current 5.8% to 5.4%, levels not seen since the early 1990s. Resuming a trend interrupted in 2003, wages will increase faster than inflation during 2004.

Continued migration into Utah throughout the recession suggests that Utah will show strong growth in the long run. Strong international migration brings an even more diverse economy and society for Utah. Current expectations are that the Greater Wasatch will add at least 1 million residents by 2030, giving the urban area a population of more than 3 million, the current size of the Phoenix metropolitan area. REMI, Utah's new projections tool, will assist analysts to better anticipate and understand growth challenges.